

COMMISSION ON ORGANIZATION
OF THE
EXECUTIVE BRANCH OF THE GOVERNMENT

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Washington, D.C., March 13 -- Without impairment of essential lending, guaranteeing and insuring functions, and with continuing Government regulation, those Federal agencies which have demonstrated their ability to stand on their own feet should be brought into the private enterprise system, as has been done with other agencies, notably the Federal Reserve Banks, the Federal Deposit Insurance Corporation and the Federal Land Banks. Recommendations to accomplish this are made by the Commission on Organization of the Executive Branch of the Government in a report, based on studies of 104 Federal agencies, to be submitted to the Congress tomorrow.

Federal loans, guarantees and insurance have grown to such magnitude, \$244 billion in all, that a broad reorganization has become necessary in the interest of sound operations and economy, the Commission found. It recommends that certain agencies be mutualized much as mutual savings banks and mutual life insurance companies are, but under Federal regulation. It also recommends that hidden subsidies be disclosed to the public and that agencies generally be made self-supporting.

It is estimated that \$4,536,000,000 would be recovered ultimately by the Treasury through the reorganization plans. While it is impossible

to calculate fully the benefits to the taxpayers by the adoption of the recommendations, the Commission foresees ultimate annual savings of \$200 million by requiring that agencies collect their administrative expenses from their borrowers or other beneficiaries, by imposing on borrowers on future loans interest rates equaling the cost of money to the Government, and by requiring agencies operating with Federal funds to surrender Government securities held by them to the Treasury in return for a non-interest bearing credit. The Treasury would, it is estimated, recover approximately \$297,751,000 from the liquidation of certain agencies.

One anticipated result of the reorganization program presented by the Commission would be to restore the "control of the purse" to the Congress.

The 12-man bi-partisan Commission, of which ex-President Herbert Hoover is Chairman, based its report in part on the investigations of a task force headed by Paul Grady of Price Waterhouse and Company, and in part on the experience and judgment of members of the Commission.

In its appraisal of the various agencies the Commission has found that "with relatively few exceptions they have developed methods of organization which assure integrity, efficiency and great public service. They have made great contributions to national security, to the strengthening of our economy and to the standards of living of the American people."

The Commission has "proceeded on the assumption that lending or guaranteeing loans is a function which the Government should undertake

only when private enterprise cannot or will not perform the function, and then only in furtherance of a justifiable Governmental purpose."

The Commission recommends that agencies that have served their purpose and for which there is no present need be liquidated. They are: twelve Production Credit Corporations, Agricultural Marketing Act Revolving Fund, Federal Farm Mortgage Corporation, and Loans for College Housing.

The Commission also recommends that certain agencies be mutualized, or their mutualization be expedited, or that they be otherwise reorganized, to make them self-supporting, to assure better management and to merge them into the private enterprise system. These are: Banks for Cooperatives, Federal Housing Administration, Federal Intermediate Credit Banks, Federal National Mortgage Association and Rural Electrification Administration.

All non-mutualized agencies engaged in lending, guaranteeing and insuring would be required, under a Commission recommendation, to report each year to the Congress the total amount by which earned income failed in the previous year to cover total costs. These costs would include operating expenses, interest on Government advances at a rate equal to that on the public debt, losses on loans or investments, reserves against losses, and, if the agency is not paying a return on the Government's investment, the interest received on holdings of United States securities up to the amount of the Government's investment.

In the interest of administrative efficiency and economy, the Commission has recommended that the Rural Electrification Administration,

the Small Business Administration, Veterans Life Insurance and Housing and Home Finance Agency be brought under the Government Corporation Control Act. The Commission also asks that the Congress revise this Act to provide for Federal Charters having greater uniformity in standards, requirements and practices. Of the 104 Federal agencies, 81 have already been brought under the Act, and 23 are parts of departments.

The main requirements of the Government Corporation Control Act call for management methods similar to those of private business, "instead of the more cumbersome departmental forms."

Mutualization as recommended by the Commission would be attained by requiring the beneficiaries of loans, guarantees or insurance to make proportionate payments to retire capital stock owned by the Government.

"Thus, in several instances, great numbers of individuals and firms interested in these problems become the stockholders and the management in practice passes into their hands subject to Federal regulation," the Commission says. "In those instances, inclusion of this private ownership has proved to be a valuable check on management much needed by Government agencies. Mutualized agencies pay their own administrative expenses and set up their own reserves against losses, subject to Government control."

The Commission recommends that the Export-Import Bank, established in 1934 as an emergency agency and since Federally incorporated with \$1 billion capital, cease making normal commercial short-term import-export loans, and that it be made the sole Federal instrumentality for making long-term export loans, loans for development of foreign

resources, and loans to foreign governments. In that event Congress would provide by annual appropriation the funds necessary.

The result would be to return to the Treasury sums now invested in short-term export-import loans. In addition, the Commission says, the potentialities for the International Bank for Reconstruction and Development in this field should, in many instances, relieve demands on the reorganized Export-Import Bank.

"When the Bank was established as a depression measure to aid in financing of our foreign trade," the Commission says, "it was designed to act only through the emergency and to supplement and not to compete with private capital."

The Commission asks for periodic inspections of commodities held in storage by the Commodity Credit Corporation to determine their condition and that Congress be informed of any decline in value resulting from deterioration.

The Commission makes no recommendation with respect to the broad policy of price support, but it does propose changes by which it feels the work of the Commodity Credit Corporation "could be greatly simplified, a considerable amount of administrative expenditures saved and the use of Treasury loans diminished by a change in its method of handling price support operations."

"To achieve these ends," the Commission says, "instead of making loans to the farmer based on price support levels pending his decision as to when he wishes to sell the commodity, the Commodity Credit Corporation should enter into contracts to purchase the commodities from the farmer at the support level and leave to him, as before, the

determination of when he sells them. This would result in no change in the farmer's situation, but for the Commodity Credit Corporation it would reduce the enormous detail of managing the multitude of loans and it would enable the farmer to borrow from private banks any advances he wishes to secure within the limits of the level of the price support program."

The Commission recommends that the Federal Crop Insurance Corporation, established in 1938, which insures wheat, corn, cotton, tobacco, flax, dry edible beans, citrus fruit, and the combined investment in several crops under a multiple-crop plan, should charge premiums sufficient to cover administrative expenses and losses and to provide reserves. Congress appropriated funds to cover the agency's \$6,718,000 of administrative expenses in fiscal year 1954. The insurance outstanding for the crop year 1954 represents a potential liability of \$346,758,000. The Commission observes, without further emphasis, that this agency has had 14 years of actuarial experience.

In recommending that the Rural Electrification Administration be reorganized on a self-supporting basis, the Commission notes that on June 30, 1954, the agency owed the Treasury \$2,091,991,000 for advances and had further authorizations of \$600,237,000. Under the method of financing presently used, the Government has subsidized the sale of electric power to the members of the cooperative associations at considerably less than its economic cost. The subsidies were provided by charging interest at 2 per cent which is 1 percentage point less than the Treasury pays on long-term issues; granting exemption from all

Federal taxes; allowing a five-year moratorium period with a delayed payment of interest which results in an effective rate of return of even less than 2 per cent, and paying administrative expenses of about \$7,750,000 annually from federal funds.

With 92.3 per cent of all farms electrified as of June 30, 1954, it is the Commission's belief that the "time has arrived for the reorganization of the Rural Electrification Administration into a self-supporting institution securing its own finance from private sources in a manner similar to that of other agencies."

The Small Business Administration, which the Commission looks upon with some skepticism, should be continued, it says, for another two years during which period "it will have an opportunity to demonstrate its usefulness to small business on sound business principles." The agency is scheduled to expire on June 30, 1955, but the Commission feels that it should be given a reasonable time to show that it can "perform the desirable functions outlined in the statute creating it." It should, it adds, "charge sufficient interest to earn its operating expenses and to reimburse the Treasury for the cost of money borrowed."

The Commission asks the Congress to review the International Monetary Fund "with a view to determining whether its service is any longer necessary" from the point of view of the United States. The Fund was established by international agreement in July 1944, and began business on March 1, 1947, for the purpose of promoting stability in international exchange and for related purposes. Member countries have subscribed \$8,848,500,000 of capital and the United States quota of \$2,750,000,000 has been paid.

The Commission in recommending that the Veterans Life Insurance Program be reorganized on a self-sustaining basis, paying its own administrative expenses, and subject to the Government Corporation Control Act, points out that this would not necessitate any increase in premium rates.

"The Federal Government," the Commission points out, "pays all expenses incident to the administration of these insurance funds. These expenses were \$37,168,000 for the year ending June 30, 1954. The present premiums paid by veterans have been sufficient to build large reserves and to pay large dividends."

Loans, guarantees, insurance and subsidies in the housing field are discussed at length by the Commission. Different agencies have been grouped under a single administrative agency, the major steps having been taken by the Congress in 1947, and, on recommendations to the Congress by the 1947-1949 Hoover Commission, in 1950. Today the Housing and Home Finance Agency embraces all Federal activities in this field except those of the Veterans Administration and of the Farmers Home Administration. The top agency is headed by a single administrator and reports directly to the President.

There are eleven Federally incorporated Home Loan Banks whose capital was initially furnished by the Government, but which has since been repaid, the banks mutualized and the stock is now owned by member concerns--savings and loan associations, savings banks and insurance companies, subject to regulation by the Home Loan Bank Board. A consolidated statement of the Federal Home Loan Banks as of June 30, 1954

shows total assets of \$1,399,116,000, including \$679,492,000 of investments, mainly in United States bonds, and outstanding advances to members of \$675,084,000. Liabilities were \$939,211,000, including member deposits of \$819,698,000. Capital and surplus were \$459,895,000. These banks have authority to borrow up to \$1 billion from the Treasury.

The Federal Savings and Loan Insurance Corporation, an agency which has shown management competence and financial soundness comparable to those of the Federal Deposit Insurance Corporation, had 3,370 member institutions having 13,300,000 individual savings accounts as of June 30, 1954. It is governed by the Home Loan Bank Board and insures the accounts of investors in federal savings and loan associations and in various state-chartered institutions.

The Commission recommends that the law limiting Federal Savings and Loan's right to repay the Federally owned capital stock be repealed and that the corporation be required to surrender to the Treasury \$66,800,000 of the Government securities it holds, either in full repayment of the remaining investment of the Government or in return for a non-interest-bearing credit.

The Commission also recommends that either the authority of the Administrator of the Housing and Home Finance Agency to transfer funds be rescinded, so far as the Home Loan Bank System is concerned, or, alternatively, that the Home Loan Bank System, including the Federal Savings and Loan Insurance Corporation, be given independent status similar to that of the Federal Reserve System.

The Commission recognizes that the Federal Housing Administration "has made a significant contribution in the field of home financing and has, in large part, been responsible for the sustained high level of construction activity in this country," but points out that "serious doubts have been raised concerning the adequacy of the reserves established to support the extensive guaranteeing program."

"Moreover," the Commission adds, "the 'windfall' profits which have recently been brought to the public's attention indicate an additional area of potential difficulty in the program, namely, unrealistic appraisals. One other possible weakness in the Federal Housing Program is the practice of permitting extremely low down payments on the purchase of homes; this particular defect, if in fact it does exist, has not yet manifested itself, but would presumably become apparent in the event of a period of deflation or general economic decline.

"The \$17,921,863,000 of mortgages insured by the FHA as of June 30, 1954, is supported by reserves and surplus of \$338,826,000, or a reserve of about 2 per cent which compares with a reserve generally carried by private savings banks on outstanding home loans of 6 per cent. It seems to us that the adequacy of FHA reserves should be thoroughly explored, particularly in view of the low minimum equities which have been required in many of these loans and guarantees."

The Commission recommends that the Federal Housing Administration be reorganized in such a way as to do its own financing without having to call again on the Government for funds. The Home Loan Banks and

the Federal Savings and Loan Insurance Corporation are mentioned as examples which might be followed.

The Farmers Home Administration, an agency in the Department of Agriculture whose principal function is to provide financial support to operators of family-size farm units unable to obtain funds through normal commercial channels, should require, the Commission says, adequate equities under all its loan programs except disaster and emergency crop and feed loans. The Commission recommends that the Congress require this agency to charge interest, premiums or other fees on loans sufficient to cover administrative costs and the cost of money to the Treasury, and that the agency instruct the county committees advising it to screen applicants for loans more carefully.

Among the other principal recommendations of the Commission are:

That the Secretary of the Treasury be required to impose rates of interest on the agencies for Federal advances or contributions equal to the going rate of interest paid by the Treasury on its obligations of comparable maturity.

That the President be given authority to increase equities required on new mortgages insured by the Federal Housing Administration, and that more extensive use be made of the principle of sharing the risk on insured loans with the Government by institutions making such loans.

That a representative of the Secretary of the Treasury sit ex-officio on all boards or commissions having the power to affect the fiscal policy of the United States. His function, when

serving in this capacity, would be to convey to such agencies the credit policy of the Federal Government.

That the General Accounting Office expand and strengthen its inspection of the business activities and policies of Federal agencies, in addition to the comprehensive audit, and report to the Congress.

That studies be made of prospective foreclosure and loss experience of all phases of the Government's housing program.

That the authorization of the Housing and Home Finance Agency to lend money for public works, except as they involve public housing projects, be repealed.

That Federal grants-in-aid and Federal rent subsidies be used to provide security for private loans to slum clearance projects and that the Federal lending and guaranteeing functions of this agency be terminated.

That the liquidation of the Prefabricated Housing Lending Program and the Alaska Housing Loans be accelerated.

That the Government dispose of all repossessed housing units held by it as soon as practicable.

That the program of Urban Planning and Reserve of Planned Public Works in the Housing and Home Finance Agency be terminated.

That the liquidation of the War Housing and the Veterans' Re-use Housing Program be accelerated.

That the Production Credit Corporations be liquidated and that, pending liquidation, they turn their holdings of Government

bonds, amounting to \$41,809,000 on June 30, 1954, over to the Treasury for non-interest-bearing credits.

That the 143 Production Credit Associations in which the Production Credit Corporations own stock be prohibited from paying dividends until all Federal capital has been repaid.

That, to effect mutualization, Federal Intermediate Credit Banks charge a premium on loans for the acquisition of their stock by their borrowers; and that \$50,209,000 of Government securities held by these banks be delivered to the Treasury to reduce the Government's investment in these banks, or in return for non-interest-bearing certificates of indebtedness of the United States.

That the authority of the Federal Farm Mortgage Corporation, an emergency agency, now in liquidation, to furnish \$500 million to the Federal Land Banks, be rescinded; that the Land Banks be continued as liquidators of the Federal Farm Mortgage Corporation; that they deduct liquidation costs from collections and pay the net to the Treasury, and that the Congress require that valuable mineral interests held by the Corporation be transferred immediately to the Secretary of the Interior without waiting for the date now fixed by law.

That the program of loans for college housing be terminated because of the "demonstrated ability of colleges to secure such loans elsewhere."

That the \$150 million stock in the Banks for Cooperatives held by the Agricultural Marketing Act Revolving Fund be

returned to the Treasury for future redemption by those banks, and that the remaining assets and liabilities of the Fund be turned over to the Treasury for liquidation.

The Commission tabulates the outstanding loans by the Treasury to foreign governments or foreign business enterprises as of June 30, 1954, exclusive of gifts or grants. The total was \$26,360,443,000, divided as follows: World War I debts outstanding, \$17,297,000,000, including \$5,864,000,000 of accumulated interest; U.S. Treasury-British Loan, \$3,614,000,000; lend-lease and surplus property remaining after \$36,400,000,000 of lend-lease advances were written off, \$2,412,000,000; Mutual Security Agency and successors, \$1,703,800,000; Export-Import Bank Loans to Foreign Governments, \$1,333,643,000; subscription to International Monetary Fund, \$2,750,000,000; subscription to International Bank for Reconstruction and Development, \$635,000,000.

The \$244,272,515,000 of outstanding agency loans, insurance, guarantees and contingent liabilities, only part of which represents direct Government obligations, is divided as follows: insurance of bank deposits, \$106,509,000,000; aids to housing, \$55,786,358,000; veterans life insurance, \$44,097,912,000; aids to foreign governments \$26,360,443,000; aids to agriculture, \$8,643,092,000, and aids to business, \$2,875,710,000. The national debt and social security are not included.

The Government had an investment in the agencies on June 30, 1954, of about \$16,900,000,000 and the agencies are authorized to call on the United States Treasury for about \$14,100,000,000 of additional funds.

The Commission says it has been "constantly heedful of the charge given us by the Congress" to study and investigate the present organization and methods of operation of all departments, bureaus, agencies, boards, commissions, offices, independent establishments and instrumentalities of the Government except the Judiciary and the Congress of the United States, to determine what changes therein are necessary, in their opinion, to accomplish the purposes of the Act creating the Commission.

The Act declares it to be the policy of the Congress "to promote economy, efficiency and improved service in the transaction of the public business" by methods and procedures for reducing expenditures to the "lowest amount consistent with the efficient performance of essential services; by "eliminating duplication and overlapping"; by "consolidating services, activities and functions of a similar nature"; by abolishing unnecessary services and functions; by eliminating "nonessential services . . . which are competitive with private enterprise"; by defining responsibilities of officials, and by relocating agencies now responsible directly to the President in departments or other agencies.

Five members of the Commission made separate statements concerning sections of the report.

Attorney General Herbert Brownell, Jr., dissented from the recommendation that the program of Urban Planning and Reserve of Planned Public Works in the Housing and Home Finance Agency be terminated. He said he did not believe that there has been sufficient study to determine the effect on the Rural Electrification Administration of the recommendation that this unit be reorganized on a self-supporting basis. He believes that to have the Export-Import Bank cease making normal commercial short-term import-export loans "would seriously impair the country's foreign trade program and thus adversely affect our foreign policy."

Commissioner James A. Farley felt that the report fails to give adequate reasons for recommending changes in certain government organizations which have "served a good purpose," particularly the Farmers Home Administration, the Commodity Credit Corporation, the Rural Electrification Administration and the Export-Import Bank.

Commissioner Arthur S. Flemming disqualified himself from voting on the recommendation concerning the college housing program and does not agree with the recommendation advocating termination of the program of Urban Planning and Reserve of Planned Public Works. Also, he does not agree with the recommendation that the Export-Import Bank cease normal commercial short-term export-import loans.

Commissioner Chet Holifield contends that the Commission's recommendations "point in the direction of tighter agricultural credit, a slowing down of housing construction, restrictions on the rural electrification program and limitations on other direct or indirect aids provided by the Federal Government." "By and large", he also says, "the recommendations in the report, if fully carried out, would make it harder for American citizens to buy homes or to get loans for their farms or businesses."

Commissioner Joseph P. Kennedy does not agree with the recommendation that the Export-Import Bank cease making normal commercial short-term export-import loans. "In my opinion", he says, "the importance of this program as an instrumentality of our foreign policy has not been sufficiently considered."

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Note: The Task Force Report will be distributed later.